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C O N F I D E N T I A L SECTION 01 OF 04 ANKARA 000437

SIPDIS

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TAGS: ENRG EPET TU
SUBJECT: DAS BRYZA HEARS OPTIMISM ON NABUCCO IGA, SILENCE ON BLUE STREAM II

REF: A. ANKARA 329
¶B. ANKARA 315
¶C. ANKARA 138
¶D. BAKU 192

Classified By: Ambassador James Jeffrey for reasons 1.4 (B) and (D)

¶1. (C) Summary. In a whirlwind afternoon on March 12, GOT and private sector representatives stressed to EUR DAS Bryza the importance of making tangible, concrete progress on Nabucco within the next few months. All eyes are focused on the Nabucco Intergovernmental Agreement (IGA) which RWE and OMV believe will be ready to initial at the Prague Summit in May. The GOT was upbeat about completing IGA negotiations within that time frame but mentioned one important outstanding issue: a yet-to-be-determined formulation to address Turkey's own energy needs. All GOT interlocutors, with one exception, said Turkey and Azerbaijan are close to agreement on a gas sales contract for Turkey's domestic market. Speculation on reaching a deal with Azerbaijan ranged from several weeks to two months. The GOT is looking to Turkmenistan and Iraq for additional gas volumes for Nabucco. Private companies involved in the project (RWE and OMV) said Nabucco could go ahead with as little as 8 bcm. They expect once the initial gas tranche is secured, it will pull more gas to the project. Bryza's caution to the GOT about the dangers of increasing energy dependence on Russia was met with silence. Turkey continues to seek opening of the Energy Chapter in accession discussions with the EU. End summary.

¶2. (SBU) On March 12, DAS Bryza met with Energy Minister Guler, MFA Undersecretary Apakan, MFA Deputy Undersecretary Kuneralp, Prime Ministry Deputy Undersecretary Hakan Fidan, MP Taner Yildiz, Managing Director for Nabucco Gas Pipeline International Reinhard Mitschek, Germany energy company RWE's Head of Business Development Jeremy Ellis and Italian energy firm Edison's Business Development Director Elio Ruggeri.

Turkey-Azeri gas supply agreement on the horizon?

¶3. (C) To all GOT interlocutors, DAS Bryza stressed that Turkey and Azerbaijan must come quickly to an agreement on Shah Deniz II gas sales to Turkey and transit terms for Azeri gas to Europe. Bryza conveyed Azeri President Aliyev's growing weariness and sense of strategic isolation. Aliyev fears an aggressive Iran and Russia, politically unstable Georgia and a Turkey that will normalize relations with Armenia, lifting the incentive for Armenia to make progress on Nagorno-Karabakh. Aliyev is committed to strengthening ties to the West but his means of doing do (selling gas) may be thwarted by Turkish intentions to buy all Azeri gas and

control the price.

¶4. (C) MP Taner Yildiz, PM's unofficial energy envoy and Energy Minister-in-waiting, said he would raise DAS Bryza's concerns directly with the PM. Yildiz said both he and Azeri Energy Minister Natiq Aliyev have agreed that commercial entities (like BOTAS and SOCAR) may have divergent interests from their respective governments and if conflicts arises, government interests would triumph. Yildiz said both he and the PM were confident that a gas supply agreement between Turkey and Azerbaijan would be reached in the next 1-2 months.

¶5. (C) PM's Deputy Undersecretary Fidan said the number one project manager for Nabucco is the PM. As we have long suspected, Erdogan is the only one with the latitude to negotiate a compromise with Azerbaijan on gas supply and transit. Fidan explained he had been working hard to forge a common Turkish policy that allowed Turkey to satisfy its gas demand (as BOTAS and the Energy Ministry pressed) while maintaining a strategic focus on realizing the Southern Corridor (as the Ministry Foreign Affairs pressed). Fidan felt he had made considerable progress, and was optimistic an agreement could be reached in the "near term" (undefined) and at the highest political level. Bryza conveyed that Azerbaijani President Aliyev felt Prime Minister Erdogan was resisting a discussion on these case issues. Fidan pledged to look into the matter. MFA Deputy Undersecretary Kuneralp said both sides need to show flexibility and its not in either parties' interest to continue to drag out the negotiations. Kuneralp professed not to know the details of

the negotiations on gas volumes for Turkey or on price, but speculated a solution could be achieved in a few weeks time.

¶6. (C) Contrary to other interlocutors, Energy Minister Guler did not mention that the two sides were close to a deal but did say he expected an Azeri delegation to visit soon. He accused the Azeris of not wanting to sell their gas at all and blaming Turkey for the delay, and of rent seeking behavior rather than strategic partnership (ref A). According to Guler, SOCAR offered to sell all Shah Deniz Phase II gas to Turkey on the condition that they could sell directly into the Turkish market. Since Turkey is the closest market to Azerbaijan, transit costs would be the lowest and Azerbaijan could make the most profit. Refuting the argument that Turkey seeks to corner the market on Azeri gas, Guler said Turkey has never asked for more than 8 bcm, which he asserted is exactly the amount needed for Turkey's energy security.

Additional sources of gas for Nabucco

¶7. (C) According to OMV's Reinhart Mitschek and RWE's Jeremy Ellis, gas supply will not be a problem for Nabucco. The minimum amount of gas needed to make a financial decision to sink money into Nabucco is 8 bcm. "If there is a gas supply contract and a commitment to ship it from point A to point B, the Nabucco International company can build the pipeline and attract other gas," said Mitschek. Ellis (whose company has formed a consortium with OMV called the Caspian Energy Company (CEC) to woo Berdimuhamedov) speculated that Turkmenistan would warm up to selling gas westward after Nabucco partners sign an Intergovernmental Agreement (IGA).

¶8. (C) Yildiz said Nabucco continues to be a priority project for Turkey. Finding additional gas supply is key. Turkey has formed a joint committee with Turkmenistan and Azerbaijan to study how to bring Turkmenistan gas across the Caspian Sea. (Note: This committee has yet to meet since the announcement of its creation in November 2008. End note.)

¶9. (C) If the conditions are right with Azerbaijan, we will be able to attract addition sources of gas from Iraq,

Turkmenistan (perhaps Iran, in the future) and possibly Qatar, said Fidan. He chided Turkmen President Berdimuhamedov for offering every visitor 10 bcm of gas if they can transport it from the border. He asked for continuing U.S. support with Turkmenistan to encourage it to take the risk to sell gas westward, including by helping potential develops explore a link between Turkmenistan's Bloc 1 in the Caspian Sea and Azerbaijan's gas export infrastructure. Fidan said the first meeting of the joint committee on dividing the Caspian Sea would be held without Turkey but that the GOT planned to continue to support the process in the future.

¶10. (C) Bryza asked Kuneralp about February 2009 statement by Foreign Minister Babacan supporting Russian gas for Nabucco (ref B). Kuneralp responded that third party access to transit pipelines is stipulated in EU rules and regulations. "Of course, the point of Nabucco is to bring diversified gas sources to Europe, " said Kuneralp. In any case, it is too early to talk about third party access. Signing the IGA must be the first order of business. Bryza suggested that allowing Russia to transit gas through Nabucco would be a huge concession and Turkey should consider it only in return for a major concession from Russia, such as third party access to Russian pipelines carrying resources from Central Asia.

IGA: Full Steam Ahead

¶11. (C) Mitschek and Ellis told Bryza they are concentrating their efforts on getting the IGA for Nabucco initialed by the five governments (Turkey, Bulgaria, Romania, Hungary, Austria) at the EU Commission's Prague Summit, May 7-8. Ellis said investors are feeling fatigued and need to see a sign of tangible progress soon. Ellis described the GOT approach to the IGA as positive.

¶12. (C) Kuneralp said the GOT has had a series of productive discussions on the IGA: the fourth round of talks will be held April 6-7. Kuneralp was upbeat and confident that the

negotiations could be concluded in May or June. He said there was a window of opportunity to make progress, on the heels of the January Nabucco Summit in Budapest where the European Investment Bank (EIB) offered to finance one-fourth of the project's total costs. Once the IGA is signed, the project will gain more momentum and become more credible. This credibility is the key to attracting more gas volumes to Nabucco. Kuneralp said he sensed Turkmenistan is beginning to take seriously an export route to the West. Achieving a major milestone like IGA signing will only accelerate this process. There are two main outstanding issues in the IGA negotiations, according to Kuneralp. First, the Nabucco companies and countries are still trying to find a suitable way to address Turkey's energy supply concerns in the IGA document. Second, a few outstanding technical issues need to be addressed, like tax treatment.

Blue Stream II

¶13. (C) Referring to reports of increasing energy cooperation between Russia and Turkey, Bryza urged all GOT interlocutors to refrain from signing any new deals with Russia, especially Blue Stream II, during the sensitive negotiations with Azerbaijan. Bryza stressed that Aliyev already doubts whether Turkey will provide an open, transparently operated corridor for the transit of gas to Europe and that Turkey's warming with Armenia will cost it leverage to solve the Nagorno-Karabakh in its favor. In this atmosphere, a deal with Russia would confirm Aliyev's fears and he could very well decide not to further develop gas, which would hurt Turkey. The GOT response to Bryza's plea ranged from uncomfortable silence to changing the subject.

The most encouraging signal came from Fidan, who simply nodded, acknowledging the strategic picture Bryza outlined.

EU: Open the Energy Chapter

¶14. (C) Yildiz complained that the EU is not treating Turkey like a partner. Opening the Energy Chapter under the EU accession progress is important to Turkey and he found it incomprehensible how one small member state can thwart the interests of 26 others. Kuneralp also stressed the practical implications for opening the chapter, namely the harmonization of Turkey's laws and regulations with Europe's, which could only serve to speed up the Nabucco negotiations.

Pipeline Connection with Bulgaria

¶15. (C) With Minister Guler, Bryza followed up his and Amb. Steve Mann's meetings the previous day in Sofia, when Bulgarian Energy Minister Dimitrov raised the idea of reversing the "West Line" gas pipeline (6 bcm of Russian gas) to flow from Turkey to Bulgaria to increase Bulgarian energy security. Guler responded that negotiations had just begun and the GOT was opening to continuing the discussions. (Comment: This will be a hard sell for Turkey. The GOT depends on that 6 bcm for their own energy security. Loss of this 6 bcm will likely drive the Turks to bargain even harder for Azeri gas or increase Russian gas supplies to Turkey from the Blue Stream pipeline. End comment.)

¶16. (C) Comment: Since the December 2008 U.S.-Turkey Energy Working Group meeting when the MFA told us a bilateral gas sales and transit agreement with Azerbaijan would be signed when the "time is right," (ref C) we have been trying to understand what factors make the timing ripe. The answer may lie in Turkey understanding of the strategic links and delicate balance between bilateral energy negotiations with Azerbaijan, possible opening of Turkey's border with Armenia, and the disputed Armenian-Azeri territory of Nagorno-Karabakh. Simply put, if there is no progress on the latter issue, the second issue will likely anger Azeri President Aliyev, making a win-win outcome on the first issue, nearly impossible. The GOT is likely trying to formulate a package to deal with all three of these issues at the same time, and to secure its energy needs in the process. End comment.

¶17. (U) DAS Bryza cleared this cable.

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Jeffrey